



BORROW WISELY

NJ CLASS Priorities keeps you in the right credit direction with **Real Money 101** credit tips!

Establish and Maintain Great Credit

Having good credit is one of the most strategic economic goals a person can have. Establishing and maintaining good credit will help you realize your financial goals which may include buying a car or home, applying for credit card or even an NJCLASS loan.



Here is what you need to know



- **Personal:** Name, address, Social Security number, date of birth and employment information
- **Credit history:** Types of accounts, the date you opened the account, your credit limit or loan amount, the account balance and payment history
- **Public records:** Bankruptcies, foreclosures, garnishments, legal suits and judgments
- **Inquiries:** List of creditors that accessed your credit report in the last two years

Credit Report

There is one main concern that creditors have when loaning YOU money and that is what the chances that they will be paid back? So essentially by checking your credit, they are determining the risk in lending you money.

Credit Factors



- **Payment history:** Looks at items such as late payments and bankruptcies. These defaults can hurt your credit score.
- **Amounts owed:** Considers your debt and your available credit lines. The more you owe compared to your credit limit, the lower your score will be.
- **Length of credit history:** Checks how long you had your credit accounts and how often you use them. A longer credit history will usually increase your FICO® score.
- **New credit:** Looks at new credit accounts you opened and new credit requests (such as credit cards). Multiple credit requests represent greater credit risk.
- **Types of credit used:** Considers how many credit accounts and how many installment-type accounts you have. A diverse credit portfolio can strengthen your report.

A credit score is a result based on a snapshot of your credit report that helps a lender, such as HESAA, determine your ability to pay back debt (your score = your credit risk).



Each of the three credit bureaus, Equifax, Transunion and Experian, have developed its own credit scoring system, however, the most commonly used today is still the FICO score developed by Fair Isaacs. As depicted in the chart above, the majority of the population's credit score falls between 750 and 799, which is very good. Anything over 800 is excellent. After 7 – 10 years, depending on the item, the negative item is supposed to come off of the report. If you still see it on there, you reserve the right to ask the credit bureau to remove it.



The ranges below are examples of credit scores; in most cases one will have a credit score that is either Excellent, Very Good, Good, Fair, and unfortunately Poor.



**These are for illustrative purposes only. Credit decisions may be based on many other factors.*

Once you fall below 600, you are in what is commonly referred to as the sub-prime category. As a sub – prime borrower, you will be offered higher interest rates and the terms on the loan will probably be less favorable. One way to help avoid this is to make your payments on time. Remember, the due date is when the payment has to be received so consider time for delivery whether it is via US mail or even online payments. For instance, often times payments made after 3 PM are not considered received until the following business day.

| Interest Rate | Credit Score |
|---------------|--------------|
| 3.641% | 760-850 |
| 3.863% | 700-759 |
| 4.04% | 680-699 |
| 4.254% | 660-679 |
| 4.684% | 640-659 |
| 5.23% | 620-639 |

As illustrated in the above chart, one's credit score has a direct correlation with the amount of interest one must pay on a loan. According to www.bankrate.com, the difference between a credit score of 700 and 760 will cost you approximately \$20 a month in extra interest. That is roughly \$240 extra a year and multiply that by 30 and you have \$7,200.

Monitor Your Credit

Having good credit is one of the most strategic economic goals a person can have. Establishing and maintaining good credit will help you realize your financial goals which may include buying a car or home, applying for credit card or even an NJCLASS loan.

Tips



- Request a free copy of your credit report on an annual basis. AnnualCreditReport.com is a centralized service for consumers. It was created by federal law and implemented by the three nationwide consumer credit reporting bureaus: Equifax, Experian and TransUnion

- Once you have had your first credit card for at least half a year, ask the issuer to grant you limit increase. The idea is not to spend up to your new limit now but raising one's credit limit will have a positive effect on your credit score.



- If you do not qualify for a "regular" credit card, try applying for a secured card. A secured card is tied to a cash deposit into an account so if you do not repay the loan, the bank has collateral. A secured card can help you build credit.

- One way you can give your credit score a boost is to accelerate your loan payments. This means paying more than the required amount each month. The quicker you pay off that loan, the less interest you will pay. For instance, doubling your payment to \$338 rather than \$169 will assist the average student pay off their loans twelve years ahead of schedule and save \$10K worth of interest. By putting just an extra \$40 a month towards student loans each month the average student will save over \$5K in interest.